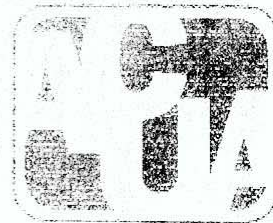# STATE OF ALABAMA
## ALABAMA CREDIT UNION ADMINISTRATION
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P. O. Box 301203, Montgomery, Alabama 36130-1203
Telephone: (334) 271-2381 • Fax (334) 409-9635
www.acua.alabama.gov

Bob Riley
Governor

T. Glenn Latham
Administrator

TO:     Alabama State Chartered Credit Unions

FROM:  T. Glenn Latham, Administrator

DATE:  December 23, 2005

SUBJ:  Maximum Tolerance Ranges for the Allowance for Loan and Lease Losses


In order to provide uniformity for state chartered credit unions, the Alabama Credit Union Administration is requesting that each state chartered credit union update or modify your existing written ALLL Methodology and computerized spreadsheet(s) used to calculate the required minimum balance for the ALLL account, if applicable, used either monthly but at least on a quarterly basis, as directed in this memorandum. Out intent is to ensure that each of our state chartered credit unions remain in compliance with NCUA's Full and Fair Disclosure regulation as well as Generally Accepted Accounting Principles (GAAP) such as, Financial Accounting Standards 5 & 114.

When determining whether or not the ALLL account must be funded via the Provision for Loan and Lease Losses expense account each month or quarter, the ACUA will accept a tolerance range which means it would not be necessary to fund the ALLL account so long as the actual ALLL balance in your general ledger account at month end or quarter end is not greater than 10% over or 10% under the calculated ALLL balance as defined by your methodology. Fully funding the ALLL account is always permissible if deemed necessary by management and your Board, but not required, in the case above; however, your written methodology should address the reason(s) for this +/- tolerance range. For example, sponsor company layoffs or a shutdown; poor economic conditions; delinquency and charge offs are trending higher; or, bankruptcies are increasing.

The effective date of compliance is no later than March 31, 2006.